Financial Status of the Social Security Program

by Robert J. Myers*

This study, originally a background paper for the National Commission on Social Security Reform and published as Appendix J in the Commission's Report, outlines the dimensions of the financing problem the Commission addressed. Prepared by Robert J. Myers, the Commission's Executive Director and a former Deputy Commissioner and Chief Actuary of the Social Security Administration, it discusses, in turn, the operational and funding procedures of the Social Security Trust Funds, the measures developed to determine the financial soundness of the program, and the financial status of each trust fund in the past, at present, and projected for the future. The author shows how program funding was gradually shifted from a modified-reserve to a pay-as-you-go basis and how the balance between income and outgo was disrupted by adverse economic conditions during 1979-81, when prices rose more rapidly than wages and unemployment was substantially higher than anticipated. Using several different economic assumptions, Myers estimates how extensive the deficits of the program could be over the short run (the remainder of the 1980's) and over the long term (the period 1982-2055).   —Editor.

As a background for the discussion of the extent of the financing problems of the Old-Age and Survivors Insurance (OASI) program, and recommendations for dealing with them, this appendix will deal with the operational procedures of the Social Security Trust Funds, their funding bases, the measures of actuarial or financial soundness, and the past and estimated future financial status of each trust fund.

There are four Social Security trust funds—the OASI Trust Fund, the Disability Insurance (DI) Trust Fund, the Hospital Insurance (HI) Trust Fund, and the Supplementary Medical Insurance (SMI) Trust Fund. The National Commission has considered almost exclusively the first three of these trust funds, which are financed primarily from payroll taxes. The SMI Trust Fund deals with that portion of the Medicare program which primarily provides partial reimbursement for the cost of physician services; it derives its financing from premiums paid by the enrollees and from payments from the General Fund of the Treasury.

* Executive Director, National Commission on Social Security Reform. The views expressed are those of the author and not necessarily those of the members of the National Commission. Copies of the **Report of the National Commission on Social Security Reform** may be purchased through the Superintendent of Documents, U.S. Government Printing Office, Washington, DC 20402 (GPO Stock No. 040-00-00463-7, $7.50).

Operational Procedures of the Trust Funds

All four of the trust funds function as separate, closed entities. All sources of their financing (including any interest earned on their invested assets) go into the funds, and all benefit payments and related administrative expenses are paid from them. As a general principle, if a particular trust fund has insufficient assets to meet outgo, there is no way under the permanent law that it can borrow from any of the other three trust funds or from the General Fund of the Treasury. (A temporary borrowing authority, which exists for 1982 only, will be discussed later.) Any assets of the trust funds which are not needed for immediate payment of benefits or administrative expenses are invested in interest-bearing government obligations, and relatively small working cash balances are maintained.

The income from payroll taxes for the OASI, DI, and HI Trust Funds tends to be spread rather evenly throughout each month (although not equally throughout the months of the year, with somewhat more being collected in the early months than in the later ones, due to the effect of the maximum taxable earnings base). The vast majority of the benefit payments from the OASI and DI Trust Funds are made at the beginning of

each month. In contrast, the outgo of the HI and SMI Trust Funds tends to be more or less evenly spread throughout the month.

As a result of these different flows of income and outgo, the three trust funds which are supported primarily by payroll taxes have somewhat different financial situations during the month. The OASI and DI Trust Funds must have sufficient assets during the first few days of each month to meet the full amount of monthly benefit checks sent out then. Benefit checks cannot be transmitted to the beneficiaries unless sufficient payroll tax and other income has been received to build up the trust fund balance to the necessary level. The HI Trust Fund need have only a very small balance at the beginning of the month in order to reimburse hospitals and other providers of services in a proper manner, because both its income and outgo are evenly spread throughout the month.

The SMI Trust Fund, too, need have only a very small balance at the end of each month, because it receives the vast majority of its enrollee premium income at the beginning of the month (through automatic deductions from monthly OASDI benefit checks).

Funding Procedures for the Trust Funds

Under present law, the OASI, DI, and HI Trust Funds are financed almost entirely from the OASDI-HI taxes levied on employers, employees, and the self-employed. Each of these trust funds receives relatively small payments from the General Fund of the Treasury as reimbursement for the cost of benefits for certain special closed groups of persons.[1] This self-supporting financing principle has, on the whole, been applicable to the OASI, DI, and HI programs ever since their inception. For a short period in the late 1940's, the financing basis was rather indeterminate, because provision was made for payments from the General Fund of the Treasury, if needed. This provision was never used, and it was repealed in 1950.

In the early years, the OASI program was funded on a modified reserve basis. It was intended that a sizable fund would be built up, so that interest earnings could help to finance the outgo. This basis would by no means result in a "fully funded" system.

Over the years, the original emphasis on building up and maintaining a large fund was reduced. Gradually,

the funding basis shifted, in practice, to what might be called a current-cost or pay-as-you-go basis. The intent under such a basis is that income and outgo should be approximately equal each year and that a fund balance should be maintained which will be only large enough to meet cyclical fluctuations both within the year and also over economic cycles which have durations of several years. There is no established rule as to the desirable size of a contingency fund, although the general view is that it should be an amount equal to between 6 and 12 months' outgo.

The financial status of the OASI, DI, and HI Trust Funds has always been evaluated over a long future period. For the OASI and DI Trust Funds, 75 years is used (although prior to 1965, a longer period—namely, into perpetuity—was used). The valuation period for the HI program is 25 years, although estimates for a 75-year period have been made. The shorter valuation period for the HI program was adopted because of the greater uncertainty about future trends of hospital costs.

The actuarial valuation of the SMI program is on an entirely different basis, because it is, in essence, a "1-year term" plan. The valuation procedure used compares the assets on hand with the accrued, but unpaid claims (and associated administrative expenses).

Measures of Actuarial or Financial Soundness

Several measures have been developed to determine the actuarial status or financial soundness of the programs. Some of these relate essentially to the short-range period (the next 5–10 years), whereas others relate to the valuation period used for the particular program.

Short-Range Measures of Soundness

Undoubtedly, the primary measure of short-range soundness is that the particular trust fund should always have at least enough assets to meet current expenditures.

A measure frequently used for measuring both the short-range and long-range financial status of the OASI, DI, and HI Trust Funds is the "fund ratio." This is defined as the trust-fund balance at the end of a month expressed as a percentage of total outgo during the next 12 months.[2]

It is usually stated that the OASI and DI Trust Funds must have fund ratios of at least 8 percent or 9 percent as the minimum possible for monthy benefits to be paid on time. Much more desirably, the "bare minimum" size should not be below some higher figure, such as 15 percent (or perhaps 20 percent) so as to provide a "cushion" against the effects of adverse economic con-

---

[1] For example, noninsured persons who were aged 65 or over at the inception of the HI program (who were "blanketed-in" for such benefits) and certain persons who were aged 72 or over before the mid-1970's (who were "blanketed-in" for monthly benefits at a uniform rate). (Not included in this context as payments from the General Fund of the Treasury are the matching employer contributions or similar payments for members of the Armed Forces and certain Federal civilian employees, because they are more properly considered as employer taxes.)

[2] Occasionally, a retrospective fund ratio is used, which is based on the outgo in the *preceding* 12 months, so as to utilize actual data for both elements.

ditions. The 8–9 percent figure for the OASI and DI Trust Funds is derived from the fact that, if outgo during the year were spread equally over each month, the monthly disbursements would be 8 1/3 percent of annual outgo. Accordingly, this amount would have to be on hand at the beginning of the year in order to meet the benefit payments due in a few days.[3]

Benefit outgo tends to rise during the calendar year (primarily because of the automatic increase in benefits for June and the gradual growth of the number of persons on the benefit rolls). Also, in the early months of a calendar year, tax income tends to be relatively higher than in later months of the year (due to the effect of the maximum taxable earnings base and the payment of a relatively large portion of the self-employment taxes in April). Accordingly, the fund ratio could be as low as 7 percent at the beginning of a year, and yet the program could meet all of its benefit obligations as they fall due if the level of tax income during the year (which does not enter into the computation of the fund ratio) is sufficiently high. This could occur either because of an increase in the tax rate or because of better economic conditions. The crucial factor under such circumstances would be the fund ratio which would be reached at the end of the year, which should be at a level of at least 8–9 percent.

The minimum fund ratio for the HI Trust Fund can be considerably lower than the 9 percent used as the standard for the OASI and DI Trust Funds. It could be argued that a relatively large fund ratio for the HI Trust Fund might be desirable, because of the somewhat greater possible cost fluctuations and uncertainties of this program as compared with the OASDI program. However, the minimum fund ratio at the beginning of a year needed in order to assure prompt reimbursement of providers of services can be as little as 1 percent—as long as, in the coming year, tax income will be at least as large as outgo during the year.[4]

Long-Range Measures

One measure of the long-range financial status of the OASI, DI, and HI Trust Funds is to compare the "average cost rate" with the "average tax rate" over the valuation period. The "cost rate" for any particular year is the outgo for benefits and administrative expenses expressed as a percentage of effective taxable payroll.[5] The "average cost rate" is the sum of the annual cost rates for the valuation period divided by the number of years therein. Similarly, the "average tax rate" is the average of the combined employer-employee tax rates for each of the years in the valuation period. When the average cost rate exceeds the average tax rate for the valuation period, there is a lack of actuarial balance, expressed as a percentage of taxable payroll.

Financial Status of OASI and DI Trust Funds

This section will examine the financial status of the OASI and DI Trust Funds in past years, their current status, and their outlook over both the short range and the long range.

Past Operations

Table 1 shows the year-end balances of each of the four trust funds for various past years. The OASI Trust Fund increased slowly during the early 1970's, reaching a maximum in 1974. Thereafter, its balance decreased steadily. The decline would have been even more rapid in 1980–81 if it had not been for a reallocation of the combined OASDI tax rate, so that a larger proportion went to the OASI Trust Fund (Public Law 96–403, October 9, 1980). As a result, almost $9 billion was, in essence, transferred from the DI Trust Fund to the OASI Trust Fund.

At the end of October 1982, the balance in the OASI Trust Fund amounted to $10.0 billion—about $1 billion less than the amount needed to pay benefits in early No-

[5] Adjustment is made for such factors as that the self-employed pay less than the combined employer-employee tax rate.

[3] Actually, slightly less than such amount would be sufficient, because the payroll-tax receipts in the first few days of the month would be available.

[4] The HI program has financial patterns within the calendar year. Outgo tends to be lower in the early part of the year, because of the effect of the initial deductible and because of the effect of the increasing trend of hospital costs over the years. There are other offsetting factors such as higher hospital utilization in winter months than in the remainder of the year. However, any seasonal outgo effects are more than offset by the relatively larger income in the early months of the year than in the later months, for the same reasons as is the case for the OASDI Trust Funds.

Table 1.—Balances in trust funds at end of various years

[In billions]

Calendar year	OASI	DI	OASDI	HI	SMI	Total
1970	$32.5	$5.6	$38.1	$3.2	$0.2	$41.5
1971	33.8	6.6	40.4	3.0	.5	43.9
1972	35.3	7.5	42.8	2.9	.6	46.3
1973	36.5	7.9	44.4	6.5	1.1	52.0
1974	37.8	8.1	45.9	9.1	1.5	56.5
1975	37.0	7.4	44.4	10.5	1.4	56.5
1976	35.4	5.7	41.1	10.6	1.8	53.5
1977	32.5	3.4	35.9	10.4	3.1	49.4
1978	27.5	4.2	31.7	11.5	4.4	47.6
1979	24.7	5.6	30.3	13.2	4.9	48.4
1980	22.8	3.6	26.4	13.7	4.5	44.6
1981	21.5	3.0	24.5	18.7	5.9	49.1
August 31, 1982	14.3	6.3	20.6	20.9	5.8	47.3
September 30, 1982	12.5	6.8	19.3	20.8	5.8	45.9
October 31, 1982	10.0	6.9	16.9	20.5	5.9	43.3

vember. As a result, the interfund borrowing of $0.6 bil-
lion from the DI Trust Fund, authorized by Public Law
97-123 (December 29, 1981), was utilized to make up
the difference. In early December, $3.4 billion was bor-
rowed from the HI Trust Fund. In late December, an
additional $13.5 billion was borrowed—$4.5 billion
from the DI Trust Fund, and the remainder from the HI
Trust Fund. From this time on (until corrective legisla-
tive action is taken), the OASI Trust Fund will, in fact,
have a negative balance in at least part of each month—
when the assets on hand are measured against the out-
standing loans from the DI and HI Trust Funds.

It was not at all unexpected that borrowing would
occur in late 1982. In fact, the **1982 OASDI Trustees
Report** contains estimates which indicate that the total
borrowing of the OASI Trust Fund from the DI and HI
Trust Funds during 1982 would amount to about $7-$11
billion. The actual amount borrowed in 1982 was $17.5
billion. Almost all of this will be utilized in the first 6
months of 1983, because the legislative action permitted
no more to be borrowed in 1982 than would be nec-
essary to meet the estimated outgo requirements
through June 1983.

The DI Trust Fund had a balance of $8.1 billion at the
end of 1974, but this decreased steadily thereafter,
reaching $3.4 billion at the end of 1977. Then, as a re-
sult of the reallocation of the OASDI tax rate in the
1977 amendments (Public Law 95-216) to give more of
the OASDI tax rate to the DI Trust Fund (as discussed
in more detail later), the balance increased—reaching
$5.6 billion at the end of 1979. Such balance was lower
at the end of both 1980 and 1981, as a result of the fur-
ther revised allocation of the OASDI tax rate for
1980-81 mentioned previously—reaching $3.0 billion at
the end of 1981. The DI Trust Fund increased during
most of 1982 and had a balance of $6.9 billion on Octo-
ber 31. However, by the end of the year its working bal-
ance (considering only investments and cash accounts)
was lower—as a result of the loans made to the OASI
Trust Fund. From an accounting standpoint, however,
the assets of the DI Trust Fund should include the
amount of such loans, and so its "true" year-end bal-
ance will be significantly higher than its balance on Oc-
tober 31.

The balance in the OASI Trust Fund at the beginning
of 1970 was approximately equal to annual outgo—that
is, a fund ratio of about 100 percent (table 2). The fund
ratio steadily decreased thereafter, reaching 15 percent
at the beginning of 1982. In the absence of interfund
borrowing—or, equivalently, if the loans from the DI
and HI Trust Funds were paid back at the beginning of
1983—the fund ratio then would be only about 4-6
percent (which would be insufficient to pay benefits on
time).

The DI Trust Fund had a fund ratio of 126 percent at
the beginning of 1970. This fell to 26 percent at the be-

Table 2.—Trust fund ratios at beginning of various
years

[In percent]

Calendar year	OASI	DI	OASDI	HI	OASDI-HI
1970	101	126	103	47	96
1971	94	140	99	54	93
1972	88	140	93	47	87
1973	75	125	80	40	76
1974	68	110	73	69	73
1975	63	92	66	79	68
1976	54	71	57	77	60
1977	47	48	47	66	50
1978	39	26	37	57	41
1979	30	30	30	54	34
1980	23	35	25	52	29
1981	18	21	18	45	23
1982	15	16	15	53	22

Note: The "trust-fund ratio" is the ratio of the balance in the trust fund on a
particular date to the outgo in the next 12 months.

ginning of 1978 and then rose to 35 percent at the begin-
ning of 1980. As a result of the revised allocation of the
OASDI tax rate, it decreased to only 16 percent at the
beginning of 1982. However, at the beginning of 1983,
the fund ratio would be about 40 percent if the loans to
the OASI Trust Fund are considered as assets.

Actual Experience in 1978-81 as Compared With Estimates Made in 1977

The **1978 OASDI Trustees Report** stated that the 1977
amendments would "restore the financial soundness of
the cash benefit program throughout the remainder of
this century and into the early years of the next one." It
was further stated that, beginning in 1981, the short-
range and medium-range annual deficits of the trust
funds would be eliminated. However, this did not oc-
cur—because of the adverse economic conditions during
1979-81, when prices rose more rapidly than wages and
unemployment was substantially higher than antici-
pated (and despite the actual disability experience being
more favorable than had been estimated to occur).

The intermediate cost estimates for the OASDI Trust
Funds that were made in 1977 for the law as then
amended showed decreases in the fund balance in
1978-80 (a total drop of $8.0 billion), but a significant
buildup in 1981 ($7.4 billion). In actuality, there were
decreases of $9.4 billion in 1978-80 and of $1.9 billion
in 1981. The pessimistic estimate made in 1977 showed
that income and outgo would be in very close balance in
1981-84, but the actual economic conditions have been
worse, so that a substantial deficit occurred in 1981 in-
stead, and much larger ones apparently are ahead.

Short-Range Cost Situation

Under present law, the OASI Trust Fund will very
likely be unable to pay benefits on time beginning in

July 1983. Table 3 compares the income (exclusive of interest payments) and the outgo of the OASI Trust Fund for 1982–90, under the intermediate cost estimate (Alternative II-B) and under the pessimistic cost estimate (Alternative III) of the 1982 Trustees Report. Under the intermediate estimate, the deficit of income as against outgo is about $20 billion in most years. Under the pessimistic estimate, the annual deficit increases from about $20 billion in the early years to $55 billion in 1989 (and even in 1990, when there is a higher tax rate, it is $43 billion).

The bleak picture for OASI changes somewhat when the DI program is also considered. It will be recalled that, in the 1977 amendments, the portion of the OASDI tax rate which is allocated to the DI Trust Fund was increased significantly, because of its unfavorable and worsening situation during 1970–75 and the expectation that this adverse trend would continue. Instead, beginning in 1976, the disability experience became more favorable (although this was not recognized in the cost estimates made at the time of the 1977 amendments). In addition, several legislative changes were made in 1977 and 1980 which resulted in lower costs for the DI program. As a result, the DI Trust Fund had, following 1977, very favorable net-income experience.

Both the intermediate and pessimistic cost estimates for 1982–90 show that the DI Trust Fund will have steadily increasing annual net income (table 3). When the OASI and DI Trust Funds are considered in combination,[6] deficits of income over outgo remain, but of a much smaller magnitude than for the OASI Trust Fund alone.

As table 3 shows, even under the intermediate cost estimate, the net income of the combined OASDI Trust Funds shows deficits during the remainder of the 1980's—about $13 billion per year in 1982–84 and about $6 billion per year in 1985–89. In 1990, however, with the scheduled increase in the tax rate, a positive net income of almost $20 billion is shown.

However, a quite different picture for the combined OASDI Trust Funds during 1982–90 is shown under the pessimistic estimate. The annual deficits are about $20 billion in the early years of the period and increase to $36 billion by 1989. In 1990, even with the tax-rate increase, a deficit of $14 billion is shown.

A somewhat more precise way to examine the financial status of the OASI Trust Fund in the 1980's is to consider the increase in tax income—or, alternatively,

Table 3.—Comparison of income (excluding interest) and outgo

[In billions]

Calendar year	OASI			DI			OASDI, net income
	Income	Outgo	Net income	Income	Outgo	Net income	
	Alternative II-B estimate						
1982	$124.9	$141.9	−$17.0	$22.3	$18.1	+$4.2	−$12.8
1983	137.4	156.5	−19.1	24.9	19.0	+5.9	−13.2
1984	152.3	173.0	−20.7	27.5	19.9	+7.6	−13.1
1985	172.4	190.9	−18.5	34.4	21.3	+13.1	−5.4
1986	187.8	208.5	−20.7	37.6	22.7	+14.9	−5.8
1987	203.4	226.3	−22.9	40.8	24.2	+16.6	−6.3
1988	220.2	244.5	−24.3	44.1	25.8	+18.3	−6.0
1989	237.3	263.2	−25.9	47.6	27.6	+20.0	−5.9
1990	272.4	282.2	−9.8	58.6	29.4	+29.2	+19.4
	Alternative III estimate						
1982	$124.9	$141.9	−$17.1	$22.2	$18.1	+$4.1	−$13.0
1983	134.5	157.7	−23.2	24.3	19.1	+5.2	−18.0
1984	147.3	177.2	−29.9	26.6	20.3	+6.3	−23.6
1985	170.1	199.8	−29.7	33.9	22.2	+11.7	−18.0
1986	188.8	224.0	−35.2	37.8	24.3	+13.5	−21.7
1987	208.3	250.2	−41.9	41.8	26.5	+15.3	−26.6
1988	229.5	277.7	−48.2	46.0	28.9	+17.1	−31.1
1989	252.0	306.8	−54.8	50.5	31.6	+18.9	−35.9
1990	294.6	337.5	−42.9	63.4	34.4	+29.0	−13.9

the reductions in benefit outgo—that would be required during the period to reach certain alternative target levels of the fund ratios for the OASDI Trust Funds by the beginning of 1988.[7]

Tables 4a and 4b present the estimates of the increase in tax income needed for the OASDI Trust Funds—or, alternatively, the decrease in benefit outgo needed—according to the intermediate and pessimistic cost estimates of the 1982 Trustees Report. The figures are only slightly different whether there are increases in tax income or decreases in benefit outgo. Table 4c gives similar data for two other pessimistic sets of economic assumptions.

To achieve a trust-fund ratio of 15 percent by 1988 would require additional tax income or decreased benefit outgo (or a combination of both) of about $200 billion under the pessimistic estimate. If a trust-fund ratio of 25 percent were desired, the corresponding figure would be about $225 billion under the pessimistic estimate. Under the intermediate cost estimate, the corresponding figures are about $75 billion for a 15 percent fund ratio and $100 billion for a 25 percent fund ratio. Quite obviously, if the additional financing were provided on the basis of the pessimistic estimate, and if the economic experience is more favorable, the trust-fund ratio which would be obtained by the end of the period

---

[6] Such consideration of the two trust funds combined can be interpreted as there being either (1) permanent interfund borrowing permitted or (2) a reallocation of the OASDI tax rate which would increase the portion thereof assignable to the OASI Trust Fund. It would seem that, because the DI program appears to have more than sufficient financing, not only in the recent past, but also for the long-range future, such a reallocation of the OASDI tax rate is both feasible and desirable.

[7] Such analysis is performed by considering the combined OASDI Trust Funds. This is done because it may be desirable that the estimated *future* overfinancing of the DI program shown by the current cost estimates should be diverted to the OASI program (by increasing the proportion of the OASDI tax rates which is allocated to OASI), so that the two trust funds are on a comparable financing basis.

Table 4a.—Estimated total increase in OASDI tax income required during 1983–89 to reach alternative target levels of trust-fund ratios by beginning of 1988 under Alternatives II–B and III

[In billions]

Calendar year	1988 trust-fund ratio of 15 percent		1988 trust-fund ratio of 25 percent	
	Alternative II–B assumptions	Alternative III assumptions	Alternative II–B assumptions	Alternative III assumptions
1983 ...	$22	$26	$24	$27
1984 ...	15	26	20	32
1985 ...	7	20	11	25
1986 ...	8	25	13	30
1987 ...	8	30	14	39
1988 ...	8	34	8	35
1989 ...	7	40	8	40
1983–89.	75	201	98	228

Note: The "trust-fund ratio" is the ratio of the balance in the OASDI Trust Funds on a particular date to the outgo in the next 12 months. The figures in this table do not include the repayment of the loan from the HI Trust Fund to the OASI Trust Fund in 1982 (about $5 billion). The figures do take into account the effect of the Tax Equity and Fiscal Responsibility Act of 1982 (Public Law 97-248).

Table 4b.—Estimated total reduction in OASDI benefit outgo required during 1983–89 to reach alternative target levels of trust-fund ratios by beginning of 1988 under Alternatives II–B and III

[In billions]

Calendar year	1988 trust-fund ratio of 15 percent		1988 trust-fund ratio of 25 percent	
	Alternative II–B assumptions	Alternative III assumptions	Alternative II–B assumptions	Alternative III assumptions
1983 ...	$20	$23	$20	$23
1984 ...	17	26	20	30
1985 ...	7	22	13	26
1986 ...	8	24	13	29
1987 ...	8	29	14	37
1988 ...	8	34	9	35
1989 ...	9	44	10	46
1983–89.	77	202	99	226

Note: The "trust-fund ratio" is the ratio of the balance in the OASDI Trust Funds on a particular date to the outgo in the next 12 months. The figures in this table do not include the repayment of the loan from the HI Trust Fund to the OASI Trust Fund in 1982 (about $5 billion). The figures do take into account the effect of the Tax Equity and Fiscal Responsibility Act of 1982 (Public Law 97-248).

Table 4c.—Comparison of additional funds needed to build up fund ratio for OASDI program

[In billions]

Calendar year	Alternative III estimate	Revised pessimistic estimate	Commerce alternative 2 estimate
1983.............	$26	$23	$23
1984.............	26	26	22
1985.............	20	20	15
1986.............	25	23	23
1987.............	30	26	41
1988.............	34	26	39
1989.............	40	29	41
1983–89..........	201	173	205

would be higher than the target—a not undesirable result.

In some ways, the economic assumptions underlying Alternative III do not seem to be realistic in view of current economic events, because both the assumed CPI and wage increases are relatively high as compared with current experience. Accordingly, it seems desirable to test the effect of lower assumed future increases in the CPI and in wages, but with a pessimistic real-wage differential (as is the case, for example, in Alternative III).

Accordingly, two sets of revised economic assumptions have been prepared. In the first set, the CPI increases in Alternative II-B have been assumed to apply for what might be referred to as the "revised pessimistic" cost estimate because these CPI increases seem reasonable in light of current conditions (although they may be a little on the high side). It has been assumed that the real-wage differential of Alternative III is then applicable on top of these CPI increases, and from these two elements, the wage increases have been determined. The second set has been prepared by the Department of Commerce at the request of the National Commission. The resulting cost estimates of the additional resources needed are shown in table 4c.

The result under the "revised pessimistic" cost estimate is that $173 billion in additional resources would be necessary in 1983–89 in order to have a viable program and to attain a fund ratio of 15 percent at the beginning of 1988 and thereafter. Under the Alternative 2 (or pessimistic) estimate of the Department of Commerce, the corresponding figure is $205 billion, which is almost exactly the same as that under the Social Security Administration's Alternative III estimate. Thus, it may be seen that this is another justification of the $150–$200 billion amount agreed to by the National Commission.

Long-Range Cost Situation

The long-range financial status of the OASDI program will first be considered by looking at the estimated cost rates as compared with the combined employer-employee tax rates, on a year-by-year basis. The National Commission has agreed that the long-range costs to be considered should be based on the intermediate cost estimate. The other cost estimates are discussed here so as to indicate the possible effect of alternative conditions.

Under the intermediate cost estimate, beginning in 1990 (when the OASDI tax rate is scheduled to increase significantly, and when a period of favorable demographic conditions is almost certain to occur[8]), the cost

---

[8] At that time, those reaching retirement age will be the survivors of those born in the late 1920's and the 1930's, when the numbers of births per year were lower than before 1925 or after 1939. At the same time, the post-World War II baby boom population will be at the working ages.

rates are smaller than the combined employer-employee tax rates (table 5). This situation continues for about the next two decades, with the excess generally ranging from about 1 percent to 1 1/2 percent of taxable payroll. This period has been widely referred to as one when the program will be running large excesses of income over outgo and, as a result, building up large trust-fund balances.

A quite different picture is shown for the 1990's and early 2000's under the pessimistic cost estimate. The OASDI tax rate during the 1990's and early 2000's falls short of the cost rate each year by about 1/2 percent of taxable payroll (table 5). Corresponding figures for the optimistic (Alternative I) estimate are not shown in table 5 on a year-by-year basis, but they are shown for 25-year periods in table 6a; under this estimate, the OASDI tax rate during the 1990's and early 2000's exceeds the cost rate each year by about 3 percent of taxable payroll. The actuarial balance of the HI program for the same period is shown in table 6b.

In the period following 2010, under the intermediate cost estimate, the OASDI tax rate tends to fall short of the cost rate by an increasing margin—beginning in 2030, by almost 4 1/2 percent of taxable payroll. Under the pessimistic cost estimate, the excess of the cost rate over the tax rate steadily increases, until it reaches some-

Table 5.—Estimated cost rates of OASDI program under Alternatives II-B and III and comparison with tax rates, 1982-2055

[As percent of taxable payroll]

Calendar year	OASDI tax rate [1]	Alternative II-B		Alternative III	
		Cost rate	Difference [2]	Cost rate	Difference [2]
1982	10.80	11.78	− 0.98	11.83	− 1.03
1985	11.40	11.70	− .30	12.40	− 1.00
1990	12.40	11.64	+ .76	12.85	− .45
1995	12.40	11.42	+ .98	12.97	− .57
2000	12.40	11.03	+ 1.37	12.82	− .42
2005	12.40	10.95	+ 1.45	12.97	− .57
2010	12.40	11.53	+ .87	13.92	− 1.52
2015	12.40	12.82	− .42	15.76	− 3.36
2020	12.40	14.44	− 2.04	18.17	− 5.77
2025	12.40	15.97	− 3.57	20.70	− 8.30
2030	12.40	16.83	− 4.43	22.63	− 10.23
2035	12.40	17.02	− 4.62	23.94	− 11.54
2040	12.40	16.80	− 4.40	24.80	− 12.40
2045	12.40	16.66	− 4.26	25.80	− 13.40
2050	12.40	16.72	− 4.32	26.93	− 14.53
2055	12.40	16.81	− 4.41	27.87	− 15.47
Averages:					
1982-2006	12.01	11.37	+ .64	12.73	− .72
2007-31	12.40	14.08	− 1.68	17.84	− 5.44
2032-56	12.40	16.81	− 4.41	25.66	− 13.26
1982-2056	12.27	14.09	− 1.82	18.74	− 6.47

[1] For employer and employee combined.

[2] Tax rate minus cost rate. Positive differences are referred to as cash-flow surpluses, and negative differences as deficits.

Note: These estimates do *not* take into account the effect of the Tax Equity and Fiscal Responsibility Act of 1982 (Public Law 97-248). If this had been done, the cost rates would have been slightly lower.

Source: **1982 OASDI Trustees Report,** tables 27 and 29.

what over 15 percent of taxable payroll. On the other hand, under the optimistic cost estimate, the OASDI tax rate exceeds the cost rate until about 2025; it is lower for the next 10 years, but once again is higher (by about 1 percent of taxable payroll at the end of the 75-year valuation period).

Over the entire 75-year valuation period, the average OASDI cost rate exceeds the average combined employer-employee tax rate by 1.82 percent of taxable payroll in the intermediate cost estimate of the 1982 Trustees Report (table 6a).[9] It may be noted that 1.82 percent of the total taxable payroll in 1982 was about $25 billion per year.

The long-range actuarial imbalance is almost 6 1/2 percent of taxable payroll under the pessimistic cost estimate. The optimistic cost estimate (Alternative I) shows a favorable actuarial balance of 1.29 percent of taxable payroll, while the more optimistic of the two intermediate cost estimates (Alternative II-A) shows an actuarial deficiency of 0.82 percent of taxable payroll.

When successive 25-year periods are considered, the intermediate cost estimate for the OASDI program shows a small positive balance (0.64 percent of taxable payroll) for the first period. This occurs because the "deficits" of income over outgo in the 1980's are more than offset by the "surpluses" following 1990 (and up through 2006). Increasingly larger deficits are shown for the next two 25-year periods—1.68 percent of taxable payroll for the second period and 4.41 percent of taxable payroll for the third period. The deficit in the second period is 12 percent of the average cost rate (which means that, if benefit outgo were to be decreased sufficiently to be financed by the average tax rate, a reduction of 12 percent would be necessary). The deficit for the third period is 26 percent of the average cost rate.

When the first 50-year period is considered as a whole, there is a "deficit" of income over outgo of 0.52 percent of taxable payroll for the OASDI program, according to the intermediate cost estimate. The corresponding figure for the pessimistic cost estimate is a "deficit" of 3.08 percent of taxable payroll, while under the optimistic estimate, there is a "surplus" of 1.68 percent of taxable payroll.

It is important to note that, if an economic stabilizing mechanism (such as is described in chapter 2 of the Commission's Report) were in effect in the 1990's and after, then the adverse results shown for present law under the pessimistic cost estimate would not occur. Rather, there would be excesses of tax income over outgo for benefit payments and administrative expenses throughout the period.

[9] This actuarial deficiency has currently been revised downward—to 1.80 percent of taxable payroll—when account was taken of (a) the actual benefit increase for June 1982 (which was slightly smaller than that estimated in the Trustees Report) and (b) the effect of the Tax Equity and Fiscal Responsibility Act of 1982 (Public Law 97-248).

Table 6a.—Long-range status of OASDI Trust Fund: Comparison of estimated average cost rate with average tax rate by alternative and trust fund, 1982-2056

[As percent of taxable payroll]

Calendar year	Average tax rate	Estimated average cost rate by alternative				Difference by alternative			
		I	II-A	II-B	III	I	II-A	II-B	III
OASI:									
1982-2006	9.93	8.64	9.31	10.14	11.37	1.29	0.63	−0.21	−1.44
2007-31	10.20	9.84	11.58	12.43	15.83	.36	−1.38	−2.23	−5.63
2032-56	10.20	10.58	14.11	15.20	23.60	−.38	−3.91	−5.00	−13.40
1982-2056	10.11	9.69	11.66	12.59	16.93	.42	−1.55	−2.48	−6.82
DI:									
1982-2006	2.07	1.11	1.16	1.23	1.36	.97	.92	.85	.72
2007-31	2.20	1.45	1.57	1.65	2.00	.75	.63	.55	.20
2032-56	2.20	1.30	1.54	1.61	2.07	.90	.66	.59	.13
1982-2056	2.16	1.29	1.42	1.50	1.81	.87	.73	.66	.35
Total:									
1982-2006	12.01	9.75	10.46	11.37	12.73	2.26	1.55	.64	−.72
2007-31	12.40	11.30	13.15	14.08	17.84	1.10	−.75	−1.68	−5.44
2032-56	12.40	11.88	15.65	16.81	25.66	.52	−3.25	−4.41	−13.26
1982-2056	12.27	10.98	13.09	14.09	18.74	1.29	−.82	−1.82	−6.47

Note: The definitions of alternatives I, II-A, II-B, and III, cost rate, tax rate, and taxable payroll are presented in the text. Totals do not necessarily equal the sum of rounded components.

   Taxable payroll is adjusted to take into account the lower contribution rates on self-employment income, on tips, and on multiple-employer "excess wages" as compared with the combined employer-employee rate.

   Source: **1982 OASDI Trustees Report.**

The estimated significant annual excesses of the OASDI tax rate over the cost rate in the 1990's and early 2000's result in a sizable buildup of trust-fund assets under the intermediate cost estimate (assuming that, in the 1980's, the deficits occurring then were financed in some manner, even though they might be repaid later). Table 7 indicates that a fund ratio of about 180 percent is estimated to occur between 2010 and 2015, but thereafter it decreases rapidly until the fund would be exhausted shortly after 2025. Under the pessimistic cost estimate, the OASDI fund ratio would never become positive, because the cost rates always exceed the tax

rates. Quite naturally, under the more optimistic of the cost estimates, the cost rates are lower than the tax rates in almost all years after 1990, and so the fund ratio increases steadily over the 75-year valuation period.

Effect of the Real-Wage Differential

Perhaps the most significant economic factor affecting costs in the actuarial estimates for the OASDI program is the real-wage differential, which is (1) the annual percentage increase in wages and salaries in covered employment, minus (2) the annual percentage increase in the CPI(W). The assumptions for the differential are based primarily on a projection of historical trends, which in turn reflect productivity gains and the factors that link such gains with the real-wage differential. Such differential has a direct effect on the cost estimates, but the associated assumptions for productivity gains and the factors linking such gains with the real-wage differential (as discussed in the next paragraph) do *not* have a direct effect on the long-range cost estimates expressed as a percentage of taxable payroll.

Such assumptions for productivity gains and the related linkage factors have been used, as a subsidiary procedure, to obtain estimates of the Gross National Product. Then, the long-range OASDI costs have then been expressed as a percentage of GNP. However, for the purpose of planning the financing of the OASDI program, by far the most important and critical measure is the relationship with taxable earnings, because the tax rates which finance the program are applied to such earnings.

The most important linkage factors between real-wage growth and productivity are the following: (1) relative growth of nontaxable fringe benefits as a pro-

Table 6b.—Long-range status of HI Trust Fund: Actuarial balance of the HI program under alternative sets of assumptions,[1] 1982-2006

[As percent of taxable payroll]

Item	Alternative			
	I	II-A	II-B	III
Average contribution rate, scheduled under present law [2]	2.86	2.86	2.86	2.86
Average cost of the program, for expenditures and for trust fund maintenance [3]	[1] 3.72	[1] 4.49	[1] 4.93	[1] 6.59
Actuarial balance	−.86	−1.63	−2.07	−3.73

[1] Does not reflect the effect of the Tax Equity and Fiscal Responsibility Act of 1982 (Public Law 97-248). When the effect of this legislation is taken into account, the average 25-year cost exclusive of trust-fund building and maintenance under Alternative II-B is 4.34 percent of taxable payroll (as contrasted with the comparable figure of 4.83 percent before enactment of such legislation).

[2] Average for the 25-year period, 1982-2006.

[3] Average for the 25-year period, 1982-2006, expressed as a percentage of taxable payroll.

   Note: Taxable payroll is adjusted to take into account the lower contribution rates on self-employment income, on tips, and on multiple-employer "excess wages" as compared with the combined employer-employee rate.

   Source: **1982 HI Trustees Report.**

Table 7.—Estimated trust fund ratios by alternative and trust fund, calendar years 1982–2060

Calendar year	Alternative I			Alternative II–A			Alternative II–B			Alternative III		
	OASI	DI	Total	OASI	DI	Total	OASI	DI	Total	OASI	DI	Total
1982	15	16	15	15	16	15	15	16	15	15	16	15
1983	10	8	10	10	8	10	11	8	10	11	8	11
1984	1	48	6	(1)	47	4	(2)	43	3	(2)	39	1
1985	-7	98	4	-11	93	(1)	(2)	84	-4	(2)	71	(2)
1986	-10	178	9	-18	169	(3)	(2)	148	-7	(2)	125	(2)
1987	-10	265	17	-24	253	3	(2)	217	-10	(2)	181	(2)
1988	-9	359	27	-28	342	8	(2)	288	-13	(2)	239	(2)
1989	-6	464	40	-30	432	15	(2)	361	-16	(2)	297	(2)
1990	(3)	567	56	-32	524	22	(2)	436	-19	(2)	356	(2)
1991	15	696	82	-26	642	39	(2)	536	-13	(2)	436	(2)
1992	31	811	110	-18	753	58	(2)	631	-7	(2)	509	(2)
1993	47	934	138	-10	859	77	(2)	723	(3)	(2)	577	(2)
1994	65	1,041	167	(1)	961	97	(2)	812	7	(2)	643	(2)
1995	84	1,137	197	8	1,054	116	(2)	895	15	(2)	705	(2)
1996	104	1,208	228	18	1,122	136	(2)	959	23	(2)	755	(2)
1997	127	1,278	260	29	1,187	157	(2)	1,019	32	(2)	799	(2)
1998	150	1,345	293	41	1,247	178	(2)	1,076	42	(2)	837	(2)
1999	175	1,411	326	52	1,317	200	(2)	1,130	53	(2)	871	(2)
2000	202	1,468	362	67	1,369	223	(2)	1,178	64	(2)	900	(2)
2001	232	1,532	400	82	1,421	247	(2)	1,227	76	(2)	927	(2)
2002	262	1,589	438	99	1,467	271	(2)	1,270	89	(2)	951	(2)
2003	293	1,630	474	116	1,502	295	(2)	1,303	102	(2)	967	(2)
2004	324	1,656	510	133	1,526	317	(2)	1,327	115	(2)	977	(2)
2005	354	1,656	542	149	1,531	338	(2)	1,332	128	(2)	976	(2)
2006	384	1,702	576	165	1,568	358	(2)	1,366	140	(2)	991	(2)
2010	485	1,797	684	216	1,645	419	(2)	1,435	177	(2)	1,005	(2)
2015	539	1,967	745	224	1,779	434	(2)	1,549	177	(2)	1,033	(2)
2020	520	2,198	739	168	1,962	387	(2)	1,703	125	(2)	1,076	(2)
2025	457	2,549	698	67	2,240	300	(2)	1,938	31	(2)	1,162	(2)
2030	386	3,000	662	(2)	2,595	196	(2)	2,241	(2)	(2)	1,287	(2)
2035	332	3,410	651	(2)	2,902	89	(2)	2,504	(2)	(2)	1,390	(2)
2040	304	3,735	675	(2)	3,123	(2)	(2)	2,693	(2)	(2)	1,456	(2)
2045	298	4,031	719	(2)	3,295	(2)	(2)	2,837	(2)	(2)	1,515	(2)
2050	301	4,443	766	(2)	3,558	(2)	(2)	3,061	(2)	(2)	1,619	(2)
2055	305	4,942	811	(2)	3,873	(2)	(2)	3,330	(2)	(2)	1,758	(2)
2060	311	5,435	860	(2)	4,168	(2)	(2)	3,582	(2)	(2)	1,910	(2)
Trust fund is projected to be first exhausted in	1983	(4)	1983	1983	(4)	1983	1983	(4)	1983	1983	(4)	1983

[1] Between -0.5 percent and zero.

[2] The fund is projected to be exhausted and not to recover before the end of the projection period.

[3] Between zero and 0.5 percent.

[4] The fund is not projected to be exhausted within the projection period.

Notes: The ratios shown after the year in which a given fund is projected to be exhausted are theoretical and are shown for informational purposes only. In addition, the ratios for the total of the OASI and DI Trust Funds after 1982 are theoretical, because under the current law after 1982, the assets of one fund cannot be borrowed by another fund. The money assumed to be borrowed by the OASI Trust Fund in December 1982 is assumed to be repaid in 1992 under Alternative 1, in 1998 under Alternative II–A, and not at any time in the long-range projection period under Alternatives II–B and III, although interest is assumed to be paid on a current basis. The assets used to compute the fund ratios are the gross assets, before taking into account the loans which occurred in 1982. If that had been done (that is, considering the net assets), the OASI fund ratios would have been smaller, and the DI and HI fund ratios would have been larger. These estimates also do not take into account the effect of the Tax Equity and Fiscal Responsibility Act of 1982 (Public Law 97-248). If this had been done, the fund ratios would have been slightly higher.

Source: **1982 OASDI Trustees Report**, Table 32.

portion of total compensation, (2) the average number of hours worked per week, and (3) the average number of weeks worked per year. In the intermediate cost estimate (Alternative II-B), when GNP was estimated from the primary assumptions as to real-wage differentials, the result of the linkages was an ultimate (1992 and after) rate of productivity gains of 2.2 percent per year. This figure was derived from the real-wage differential of 1.5 percent per year by increasing it by 0.4 percent for the relative annual growth of fringe benefits, by 0.2 percent for the average number of hours worked per week, and by 0.1 percent for the average number of weeks worked per year (the net effect of other linkage factors than the three which were used was considered to be negligible).

Consideration of these two figures can lead to greatly different conclusions. On the one hand, it could be argued that the difference of 0.7 percent between productivity gains and real-wage growth is too large and that, therefore, the real-wage differential used should be higher than 1.5 percent—which would produce a considerably more favorable financial picture for the OASDI program than is currently estimated. On the other hand, it could be argued that the assumed ultimate productivity rate of 2.2 percent is too high and that then either (1) the several linkage factors are overstated, and the real-wage differential of 1.5 percent is satisfactory, or (2) the linkage factors are appropriate, but the real-wage differential should be lower than 1.5 percent—which would produce a considerably less favorable fi-

nancial picture for the OASDI program than is currently estimated.

The estimates of GNP that have been derived from the basic actuarial cost estimates expressed as percentages of taxable payroll can be used to compare the cost of the OASDI system with GNP. According to the intermediate cost estimate, such cost is currently about 5.2 percent of GNP and will decrease slowly for the next 20 years, reaching a low of about 4.4 percent. It will increase to 6.1 percent in 2030, and then again decline slowly, to about 5.5 percent at the end of the 75-year valuation period.

Under the pessimistic estimate, the cost of the OASDI program as a percentage of GNP remains relatively level at slightly more than 5 percent for the next 25 years, but it continuously increases thereafter to about 8.6 percent at the end of the valuation period. On the other hand, under the optimistic cost estimate (Alternative I), such ratio decreases slowly in the next few years, reaching a minimum of slightly less than 4 percent of GNP after 20 years and then slowly rises to somewhat more than 5 percent in the 2020's; thereafter, it decreases to somewhat less than 4 1/2 percent ultimately.

Financial Status of HI Trust Fund

This section will briefly examine the financial status of the HI Trust Fund in past years, its current status, and its outlook over both the short range and the long range. Also considered will be the combined cost rates for the OASDI and HI programs over the 75-year OASDI valuation period.

Past Operations

The balance of the HI Trust Fund has built up steadily over the years and was almost $21 billion at the end of October 1982 (table 1). At times (such as in 1970–72 and 1975–77), the balances were relatively level, as a result of the offsetting effects of periodic increases in the tax rates and the continuous increases in hospital costs. Since 1970, the trust-fund ratio for the HI program has generally been between 50 percent and 70 percent (table 2).

During December 1982, the HI Trust Fund loaned a significant amount to the OASI Trust Fund (for the reasons described earlier). Such loans are, of course, part of the assets of the HI Trust Fund, even though they are not immediately available to meet outgo, and should be so considered in analyses of its financial condition.

Short-Range Cost Situation

Under the intermediate cost estimate, the balance in the HI Trust Fund is estimated to increase for several years—in large part because of the tax-rate increase in

1981 and the increases that are scheduled for 1985 and 1986. However, under this estimate, beginning in 1988, the balance will begin to fall, and in 1991 it will be exhausted.[10] Under the pessimistic cost estimate, the fund balance will remain relatively level during 1983–86, but will then decrease rapidly and will be exhausted in 1988.

Long-Range Cost Situation

Table 8 compares the estimated cost rates of the HI program with the combined employer-employee tax rates over the next 75 years, according to the intermediate cost estimate.[11] After the relatively favorable situation in the next few years, the cost rate increasingly exceeds the tax rate. About 50 years from now, the differential is somewhat more than 8 percent of taxable payroll—or, in other words, the cost rate at that time is almost four times as high as the combined employer-employee tax rate. In the 25-year valuation period used for the HI program, the excess of the cost rate over the tax rate is about 1 1/2 percent of taxable payroll.

Table 6b presents the actuarial balances of the HI program over its 25-year valuation period for the several alternative cost estimates. The actuarial imbalance of about 1 1/2 percent of taxable payroll according to the intermediate cost estimate can be compared with a figure of about 3 percent under the pessimistic estimate (after allowance has been made in each case for the effect of the Tax Equity and Fiscal Responsibility Act of 1982, whose effect is not included in table 6b)—or, similarly, of about 1/2 percent of taxable payroll under the more optimistic cost estimate.

Cost Rates for Combined OASDI-HI Programs

Table 8 shows the year-by-year cost rates and combined employer-employee tax rates on a year-by-year basis for the OASDI and HI programs combined, according to the intermediate cost estimate. In almost all years in the 75-year period considered, the cost rate exceeds the tax rate—and by increasing amounts following 1990. This deficit levels off at about 12 1/2 percent of

---

[10] It should be noted that the financial outlook for the HI Trust Fund as discussed here is somewhat more favorable than shown in the **1982 HI Trustees Report**. This is the result of including in the data discussed here the effect of the Tax Equity and Fiscal Responsibility Act of 1982, which significantly improved the short-run financial situation of the HI program (by covering Federal employees and restricting the reimbursements somewhat).

[11] As previously mentioned, such long-range estimates are more subject to variation for the HI program than for the OASDI program. The valuation period used for the HI system in the **1982 HI Trustees Report** is 25 years.

Table 8.—Estimated cost rates of HI and OASDI-HI programs under Alternative II-B and comparison with tax rates, 1986-2055 [1]

[As percent of taxable payroll]

Calendar year	HI program			OASDI-HI program		
	Cost rate [2]	Tax rate [3]	Difference [4]	Cost rate	Tax rate [3]	Difference [4]
1982	2.97	2.60	- 0.37	14.75	13.40	- 1.35
1985	2.74	2.70	- .04	14.44	14.10	- .34
1990	3.51	2.90	- .61	15.15	15.30	+ .15
1995	4.47	2.90	- 1.57	15.89	15.30	- .59
2000	5.38	2.90	- 2.48	16.41	15.30	- 1.11
2005	6.29	2.90	- 3.39	17.24	15.30	- 1.94
2010	7.20	2.90	- 4.30	18.73	15.30	- 3.43
2015	7.94	2.90	- 5.04	20.76	15.30	- 5.46
2020	8.89	2.90	- 5.99	23.33	15.30	- 8.03
2025	9.93	2.90	- 7.03	25.90	15.30	- 10.60
2030	10.76	2.90	- 7.86	27.59	15.30	- 12.29
2035	11.17	2.90	- 8.27	28.19	15.30	- 12.89
2040	11.29	2.90	- 8.39	28.09	15.30	- 12.79
2045	11.21	2.90	- 8.31	27.87	15.30	- 12.57
2050	11.19	2.90	- 8.29	27.91	15.30	- 12.61
2055	11.17	2.90	- 8.27	27.98	15.30	- 12.68
Averages:						
1982-2006	4.34	2.86	- 1.48	15.71	14.87	- .84
2007-31	8.78	2.90	- 5.88	22.86	15.30	- 7.56
2032-56	11.19	2.90	- 8.29	28.00	15.30	- 12.70
1982-2056	8.10	2.89	- 5.21	22.19	15.16	- 7.03

[1] Commissioners Ball, Keys, Kirkland, Moynihan, and Pepper have noted the undesirability of cost estimates for the HI program going further than 25 years into the future. See "Report of the National Commission on Social Security Reform," Social Security Bulletin, February 1983, page 3.

[2] These cost rates do *not* include any allowance for building up and maintaining the trust-fund ratio at 50 percent (which would require an additional 0.10 percent of taxable payroll in 1982-2006).

[3] For employer and employee combined.

[4] Tax rate minus cost rate. Positive differences are referred to as cash-flow surpluses, and negative differences as deficits.

Note: These estimates for OASDI do *not* take into account the effect of the Tax Equity and Fiscal Responsibility Act of 1982 (Public Law 97-248), but those for HI do take this legislation into account. If this had been done, the cost rates for OASDI-HI would have been slightly lower.

Source: Table 27 of the **1982 OASDI Trustees Report** and table 8 of the **1982 HI Trustees Report** (extended beyond 2005 by the Health Care Financing Administration under the assumption that, then, hospital costs rise at the same rate as wages), in all cases reduced to allow for the effect of Public Law 97-248 (a reduction of about 10.5 percent in all years after 1982).

taxable payroll, beginning some 50 years hence. In this ultimate situation, the cost rate is about 80 percent higher than the combined employer-employee tax rate.

Financial Status of SMI Trust Fund

This section will examine briefly the financial status of the SMI Trust Fund in past years and its current status. No discussion will be given as to its long-range future outlook, because its financing basis is essentially on a "one-year term" basis, and its benefit provisions are not automatically adjusted for changing economic conditions—as are many of the provisions of the OASDI and HI programs. In the past, some of the benefit provisions of the SMI program have been adjusted on an ad hoc basis.

The balance in the SMI Trust Fund increased from a relatively small amount in 1970 to almost $6 billion at present (table 1). As of June 30, 1981, the total assets of the SMI Trust Fund amounted to $3.8 billion, as compared with estimated liabilities for the cost of the benefits incurred in the past and still payable (but then unpaid) and the associated administrative expenses of $4.0 billion. This small deficiency of $200 million represented only 1 percent of the estimated total incurred expenditures for the following year. It is estimated that, as of June 30, 1982, the assets on hand exceeded the incurred liabilities by about $800 million, or 4 percent of the estimated total incurred expenditures for the next 12 months.

Accordingly, it can properly be stated that the actuarial status of the SMI Trust Fund in recent years and currently is satisfactory under any standard considered (that is, both on a cash basis and, more importantly, on an accrual basis).